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Ethical Dilemmas in Accounting

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by

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Table of Contents

1.0 Introduction

Presently the U.S. accounting profession is struggling with 4,000 liability suits totaling 15 billion dollars in damages (McCarroll). Last year the Big Six alone paid over 300 million in the settlement of liability suits (McCarroll). Early this April Ernst & Young, charged with helping Charles Keating Jr. of Lincoln Savings & Loan swindle 23,000 investors, settled by agreeing to pay 63 million dollars in damages (McCarroll). In mid-March Arthur Andersen paid 22 million in damages arising from a similar savings and loan suit (McCarroll). This February Coopers & Lybrand was ordered by the court to pay 200 million dollars in damages for attesting to the fairness of Miniscribe's fraudulent financial statements (McCarroll). In a broader perspective, the number of liability lawsuits faced by accountants has doubled since 1985 (McCarroll). This eruption of liability lawsuits suggests a wide spread ethical deterioration of the accounting community. Every failed audit not only involves independent auditors, but also internal accountants. What is wrong?

It would be easy to disregard this eruption in liability suits by taking the position that society is holding accountants unjustly responsible for a coincidence of business failures and the resulting lawsuits are only witch hunts. However, because accountants, especially internal accountants (i.e. management accountants, controllers, internal auditors), are often aware of the true financial health of their organization and that these internal accountants are the ones who initially prepare the financial statements forces me to believe that there is an ethical crisis.

Now, who is having the crisis, public auditors or internal accountants? Neither can be completely absolved nor condemned because both are involved. However, internal accountants, because of the nature of their situation, have more complicated ethical dilemmas that often extend far beyond the balance sheet. Internal accountants, as preparers of financial statements, know about any material departures from GAAP long before the public auditors arrive. To disengage from an audit for a public auditor does not necessarily mean, as it may for internal accountants, resigning from their job. Internal accountants, as information specialists on their company, are in a better position to uncover corporate crimes. And last, internal accountants, by having direct access to information before it is adulterated and special knowledge about their company, are in the best position to "blow the whistle." In short, internal accountants are at the front lines entangled in the conflict while public auditors are more detached and are not directly involved, unless they choose to be.

Therefore, because internal accountants are at the heart of the situation it is logical to concentrate on their ethical problems. To examine the ethical dilemmas facing internal accountants I will first explore the responsibilities of internal accountants. Next, I will examine the nature of ethics and disclose the two most authoritative ethical systems. Third, I will examine cases under the previously discussed ethical systems, searching for a pattern. And last, I will answer the question: what is wrong?

2.0 Responsibilities of an Internal Accountant

The responsibilities of an internal accountant, who will be referred to simply as "accountant" hereafter, are directly involved in the resolution of ethical dilemmas. These responsibilities determine who will be considered in the decision process. Failing to fully realize all the responsibilities accountants face would exclude would-be important groups from consideration and thus induce a faulty decision.

Now, to whom must an accountant be responsible? There are two obvious groups/individuals that they must be responsible to: their employers and themselves. This is indisputable, but what about others? Must accountants consider anyone else's welfare in ethical dilemmas?

Answering no to this question would be the same as stating that a driver's responsibilities are limited to driving safely and driving within the law. This would release them from any duty to help accident victims, even with a simple phone call alerting authorities. If this were true then why do most people feel compelled to call or even offer more help to accident victims?

In simpler terms, as asked in Genesis "am I my brothers keeper?" Yes, we are our brothers keepers. The one principal found in every ethical system that ever existed is that "members of a group bear some form of responsibility for the well-being of other members of that group" (Hosmer 105). Humans are "social beings" and "cooperation is necessary for survival" (Hosmer 105). Accountants belong to at least three groups: society in general, the accounting community, and their respective companies. No one can belong to a community or group and function only in his or her own interest and disregard the well being of other members (Hosmer 105).

Therefore, to whom is an accountant responsible? He or she is responsible, in some form, to the members of society, the accounting profession, the company (the company includes the employers and fellow employees), and himself or herself. Thus, in analyzing ethical dilemmas all four groups are regarded as stakeholders, unless somehow excluded by the situation, and must be given full consideration.

3.0 Morals, Ethics, and Ethical Systems

Before examining ethical systems, three basic questions must be answered. What is a moral? What is an ethic? What is an ethical system?

Morals are "the standards of behavior by which people are judged" to be right or wrong (Hosmer 103). Actions falling below standards are wrong and actions rising above standards are right. Ethics are the "system of beliefs that supports a particular view of morality" (Hosmer 103). So, all morals are based on ethics.

For example, if a person claims that abortion is immoral it is because that person believes life begins at conception. The moral, abortion is wrong, is based on the ethic, or belief, that life begins at conception. Another person may claim abortion is moral. This person probably believes that life begins later in the pregnancy and that a woman has the right to do what she wants with her body. Here, the moral is "abortion is ok." This moral is supported by a person's two ethics, or beliefs, on when life begins and that it is a woman's right to do what she wants with her body. In the latter case a person obtaining an abortion would have been considered to act morally.

So, morality is the standard with which a person's actions are judged to be right or wrong and ethics are the underlying beliefs that a particular version of morality is based upon.

When making ethical decisions people use their set of beliefs to create the morals which will be used to judge the actions. Any set of beliefs used exclusively to base morals upon is called an ethical system. In the case of the person who supported abortion, their ethical system, in this case, consisted of two beliefs. Thus, ethical systems, for most individuals, consist of a variety of beliefs or ethics.

There are only two classes of ethics. The first class of ethics determines morality based on the consequences of the act. The other class of ethics determines morality based on the act itself. Two ethical systems, utilitarianism and deontologism, exclusively embody in the purest form these two dichotomous methods of determining morality. These two systems are the product of the efforts of the best ethical philosophers. All ethical systems in practice are based on these two systems. They are the all inclusive ethical systems. Therefore, I shall use these two systems so that nothing is missed or excluded. But, before using them they must first be fully explained.

Utilitarianism is an ethical system proposed by Jeremy Bentham, a British philosopher, based on a single belief. The operative belief, or ethic, is that everyone should act in such a way so as to provide the most benefit to the greatest number of people. Under this system there is only one moral. The moral is that actions are right if they yield positive net consequences. Only the consequences of an action are considered under utilitarianism. Positive net consequences occur when the number of benefits, or utilities, created exceeds the number of harms, or disutilities, from an action. The problem with utilitarianism is that the minority can be sacrificed for the majority (Hosmer).

Deontologism is directly opposite utilitarianism. The belief, or ethic, under deontologism is that people should act in such a way so as not to violate any of their inherent duties. The moral is that actions are right if they do not violate any of the inherent duties. Under deontologism consequences of actions are ignored as opposed to utilitarianism where all that matters is the consequences (Cottell).

The question now, for deontologism, is what are the inherent duties? W.D. Ross, a top deontologist, identified seven inherent duties and they are "fidelity, reparation, gratitude, justice, beneficence, self-improvement, and non-maleficence" (Cottell 6). Fidelity is "the keeping of promises," explicit or implicit (Cottell 147). The duty of reparation is the duty to correct previous wrongful acts. The duty of gratitude is the duty to express gratitude to those who have helped us. The duty of justice is to ensure that the "distribution of pleasure or happiness (or the means thereto)" are "in accordance with the merit of the persons concerned" (Cottell 149). In simpler terms, the duty of justice is to make sure everyone gets their just desserts. The duty of beneficence is the duty to improve others' conditions if possible. The duty of self-improvement is simply the duty to improve oneself. And last, the duty of non-maleficence is the duty not to harm others. The two problems with deontologism are that duties conflict in certain situations and that deontologism can prompt certain acts that would cause great harm.

Now that both ethical systems have be explained in depth they will be applied to a variety cases.

4.0 Cases

Because of the nature of ethical dilemmas individuals rarely come forward to have their experiences published. However, two cases, unearthed by public auditors and further exposed by government attorneys, are presented here for analysis. The first case is derived from chapter two of Mark Stevens' book "The Big Six." Enough detail was available about this first case to allow it to be presented without any added details. The second case is based on the experiences of Roger Worsham, a CPA from Michigan, as detailed in LaRue Tone Hosmer's book "The Ethics of Management." This second case has some fictional components added, but the underlying ethical dilemmas have not been altered. Moreover, I have also borrowed a completely hypothetical third case from "Accounting Ethics" by Cottell and Perlin. I believe this case is very realistic and that it serves as excellent model for ethical analysis.

The general format for analyzing these cases will be first to present them, examine the ethical dilemmas under utilitarianism, and then examine them under deontologism.

4.1 Beverly Hills Savings and Loan

In 1979 Beverly Hills Savings and Loan (BHSL) switched from being a federal savings and loan to being state chartered and in 1980 launched a super-aggressive growth strategy that would ultimately lead to its collapse. Raising their rates BHSL managed to increase deposits from 290 million dollars in 1980 to 2.3 billion dollars in 1984. To support these higher rates BHSL invested in various high risk ventures including commercial and residential real estate. In 1982 BHSL formed a joint venture with the real estate entrepreneur James D. Stoute. Stoute would find apartments to invest into and BHSL would put up the money. In return BHSL "was entitled to 60% of the anticipated appreciation on the properties" (81). Unfortunately for BHSL the bottom fell out of the real estate market and their apartments began to devalue. Up to now these apartments were accounted for as investments, but with the downturn of the market Paul Amir, the acting chairman, ordered an unnamed internal accountant to reclassify the joint venture from an investment to an "equity participation loan" to "stem the losses" (82,83). When classified as an "equity participation loan," interest on the investment would be allowed to accrue and it would be immediately recognized as revenue. When classified as an investment, no revenue would be recognized until the apartments were sold, which would have actually created a loss.

The ethical dilemma for the accountant is whether or not to reclassify the joint venture thereby partaking in fraud, materially misstating net income, and violating GAAP. Whether or not the accountant's job is at stake is not known and I will assume for simplicity that it is not. Also, I will assume that the accountant was well aware that BHSL was steadily approaching insolvency especially after being asked to help cover it up. So, the accountant can either follow orders and reclassify the joint venture, refuse, or refuse and report the matter. What should the accountant do?

Because utilitarianism is only concerned with consequences, the accountant's options are narrowed. The accountant does not have the option to simply refuse because a simple refusal would only prompt Paul Amir to find someone else to do it, thus not having any effect on the future. The accountant would have to make it stick by notifying the FSLIC or the public auditors during the next audit.

Under the utilitarian ethical system an act is moral if it results in positive net consequences. So, to judge an act's moral worth the consequences must be known. Reclassifying the venture would materially misstate income and promote the facade of stability. This would allow BHSL to operate as usual for at least another year. Now, because only consequences are important, the question is would BHSL clean up their act in this time period and truly become stable or would they just create more of a mess?

If BHSL would reach stability then reclassifying the item would prevent a rush on the bank and prevent their stock from dropping (they were publicly traded). Would the rush close down BHSL? If they could not satisfy demands then a rush would close them down. If they could not satisfy depositor's demands the FDIC would bail them out and taxpayers would bear the burden. Certainly their stock would drop and the shareholders would not be so lucky. Also, employees would be out of their jobs if BHSL were to close. Although there is much uncertainty here, many negative consequences could be avoided which would translate into positive net consequences.

If BHSL's condition worsened, covering it up would only intensify the negative consequences just mentioned. Therefore, the act would have negative net consequences by increasing the negative consequences that are already inevitable.

If the accountant was to refuse to reclassify the item and report it to the FSLIC or the public auditors, BHSL's fate would be sealed. Their stock would drop and they would possibly become insolvent and close down. If BHSL were able to become stable had the accountant not reported this item, negative net consequences would result from this act. If BHSL's condition was to worsen if they were not exposed then exposing them would prevent more negative consequences and thus have positive net consequences.

Examining this item under utilitarianism yields an inconclusive result. The accountant's future action, as determined from utilitarianism, would be completely dependent on the accountant's belief of whether or not BHSL would reach stability. If BHSL would, then utilitarianism would suggest to reclassify the item, if not then refuse and report it. This case exposes one weakness of utilitarianism; it is very dependent on the uncertain future.

Deontologism states that there are seven duties that must never be violated. Furthermore, as previously stated, accountants owe these duties not only to society, but to the accounting profession, to the company, and to themselves. Also, because deontologism does not consider the consequences the accountant's options are to obey, refuse, and/or to notify the FSLIC. What should the accountant do?

The duty of fidelity states that the accountant has the duty to keep all implicit and explicit promises. What are these promises? There is an implicit promise of confidentiality to BHSL. There is an explicit promise to the accounting profession to follow GAAP. Are there any special explicit or implicit promises to society? If there are any relative to this case, excluding the other duties, they are not obvious. Therefore, I shall assume there are none. So, the promise of confidentiality prevents the accountant from contacting FSLIC or anyone else. The promise to follow GAAP prevents the accountant from obeying. Thus considering fidelity alone the accountant can only refuse to reclassify the item and be quiet.

The duty of gratitude requires that the accountant be grateful to those who have helped him. Without knowing more about this accountant's personal life it is indeterminable if any duty of gratitude exists and to what extent.

The duty of justice states that the accountant is to act in such a way to ensure that everyone receives their "just desserts." What Paul Amir and the other board members certainly deserve is to be removed from their leadership positions. Depositors and stockholders certainly deserve to know the true financial condition of their bank. Obeying and reclassifying the item would allow Amir and cronies to remain in power and to continue to deceive depositors and stockholders. Refusing alone would not serve justice, but notifying the FSLIC would in that the truth would come out and Amir and cronies might be ousted from their positions. So, the duty of justice requires the accountant to report BHSL to the FSLIC.

The duty of beneficence requires the accountant to make others' lives better if possible. The extent to which this duty relates to this case is unclear. In its original intent it refers to charity and the mentoring of fellow employees. It seems as if this duty does not pertain to this case.

Likewise, the duty of self improvement does not provide any clear guidance. Thus, it to will be disregarded for now.

The duty of non-maleficence requires the accountant not to harm anyone. Obeying Amir would harm the accountant's reputation and the reputation of the accounting profession. Refusing alone would not directly harm anyone, assuming his job is not an issue. Reporting this situation to the FSLIC could harm Amir, which considering justice is not a problem, but also would harm the employees of BHSL in that BHSL might be closed and these employees' reputations also might be tarnished. Not reporting the situation would sustain the illusion of stability and thus harm shareholders and depositors and might increase the cost to society. Thus, the duty of non-maleficence contradicts itself by requiring the accountant to both report and not report the situation.

The duty of reparation requires the accountant to correct past wrongs. In this case up to now the accountant has not committed any wrongs. But, if he does in this situation he will have to correct them.

So, fidelity requires the accountant to refuse only. The duty of justice requires the accountant to report the matter and the duty of non-maleficence contradicts itself. The requirements of other duties are unclear and provide no strong guidance. Thus, deontologism provides no clear solution because none of the duties can be violated. The potential for a conflict in duties is the main problem with deontologism.

4.2 ABC Manufacturing

Stan, a lawyer, is the president of Local Savings and Loan in Michigan and the principal share holder of the ABC manufacturing company, also located in Michigan. ABC specializes in manufacturing machinery and has been having financial trouble. For the past four years sales have been decreasing and ABC had experienced losses primarily because of a downturn in the economy. Fortunately, the economy was starting to show signs of recovery. But, this lack of profits made ABC look unprofitable and prevented them from obtaining a loan for replacing and repairing its old outdated machinery. This machinery was key to the survival of ABC. Stan was confident that ABC's unprofitable streak would end if it could only obtain the new machinery.

Being an attorney Stan knew that in Michigan it was illegal for a savings and loan to lend money to a manufacturing firm, but he went forward and ordered Local Savings and Loan to lend the money anyway. The next day Stan called the president of ABC, Bob, to let him know that he was coming over with the check and the paperwork. After Bob and Stan worked out the contract, Bob called Carl, the controller. Bob asked Carl to personally put the loan on the books. Carl knew about the law prohibiting savings and loans in Michigan lending money to manufacturing firms and after examining the loan contract he knew what Stan and Bob had done.

The ethical dilemma for Carl is whether or not to report the lending violation to the state authorities. His options under either ethical system are simply to tell or not to tell.

Under the utilitarian method the consequences of each alternative must be determined to derive the morality of each act. The consequences of Carl not reporting the violation are, as before, dependent on the future. For argumentation I will assume that if authorities found out about the loan ABC would be forced to return the money because illegal contracts are not binding. Because ABC has effectively leveraged up their operation they will be more sensitive to changes in market conditions and there is a question of whether or not they can repay the loan and "make it." If ABC fails then the illegal loan only prolonged their collapse at the expense of Local Savings and Loan. What effect ABC's default will have on Local Savings and Loan is indeterminable, but it will be certainly worse than if the money was returned now. So, if ABC fails there is a negative net consequence to not telling.

If ABC were to succeed and repay the loan, then not telling would have a positive net consequence. By not telling ABC is not forced to return the money and can survive. Also, ABC employees retain their jobs, including Carl. Furthermore, the market includes ABC as a competitor and thus is more efficient. Therefore, if ABC succeeds then there are positive net consequences to not telling.

Positive net consequences would result from Carl reporting the matter if ABC was to fail because, as stated above, greater negative consequences would be avoided. Negative net consequences would result if Carl reported the matter if ABC were to succeed because, again, ABC would have been shut down.

Again, utilitarianism provides inconclusive results that are completely dependent on future events. If Carl believes ABC is to succeed then he should not tell and vice versa.

For the deontological analysis, gratitude, self-improvement, and beneficence again provide no strong guidance. And again, the duty of fidelity includes the implicit promise of confidentiality to the company and the explicit promise to follow GAAP to the accounting profession. Carl has not been asked to violate GAAP in recording the loan. Besides, the company has not violated the law in accepting the loan. Local Savings and Loan is the perpetrator in this case. But, the promise of confidentiality would prevent Carl from reporting the matter.

To complicate matters it could be argued that there exists an implicit promise to society to report crimes. If no one reported crimes then catching criminals would be much harder than it is now. According to "What Cops Know" by Connie Fletcher most crimes are solved by people informing on each other. Thus, the duty of fidelity contradicts itself by requiring Carl to report the matter and not to report the matter.

Does the duty of justice require Carl to report the matter so that Stan would be prosecuted for the crime he committed? This rests on the age old question: "Is justice the same thing as the law?" In this case I believe it is because applying depositor's money to a higher risk investment and not rewarding the depositors by offering a higher return is an injustice. Of course this assumes that making a loan to a deteriorating manufacturing firm entails more risk than investing money into a diversified collection of home mortgages. Furthermore, this illegal and higher risk investment would affect the profitability of Local Savings and Loan if ABC were to default and likewise reduce owner profits penalizing them for the loss. Furthermore, the depositors deserve to know if their savings and loan is making high risk investments with their money. So yes, justice would be served by having Stan prosecuted and Carl should report the matter.

The duty of non-maleficence in this case is difficult to determine. By Carl telling, the accounting profession might be slightly harmed in the sense that an image of accountants being unable to keep secrets might be created. But there is a flip side, an image that accountants are brutally honest might be created which would add to the profession's integrity. The same is true if Carl does not tell. Accountants might be viewed as able to keep secrets or as being deceptive. So, no conclusive guidance is provided with respect to non-maleficence and the accounting profession.

However, by Carl telling it could be argued that he is hurting ABC and its employees because the loan would be reverted back to the bank and ABC would close. Assuming this is true the duty of non-maleficence would prevent Carl from telling.

Once again deontologism's duties conflict. This time the duties of justice and fidelity conflict with the duties of fidelity and non-maleficence.

"Jill Christian was pleased with her new promotion as chief cost accountant in the diesel engine plant of the Mega Tech Corporation. Not only was it satisfying to have the additional responsibility and authority, but the extra salary would certainly come in handy now that she was expecting her first child. And, she mused, wasn't it great that Mega had recently adopted that flexible benefit package that would not only cover most of the childbirth expenses but would also provide day care and flexible hours when she returned to her position. Yes, Mega was certainly a company that took care of its own.

On this day Jill did have one task that she was not particularly savoring. Ben Static, a foreman in the plant with thirty years' experience, had asked for an appointment to see her. Frankly, Ben was not the kind of person Jill liked to be around. A big, burly ex-marine, Ben had the reputation of being condescending toward women. Jill couldn't imagine why he would want to speak with her and she felt apprehensive about it.

Ben: As the new cost accountant here, I want you to be the first to know that Mega is cheating the government.

Jill: What do you mean!

Ben: I've got the goods on them right here. These are photocopied time cards. As you can see they have been altered. All I know is that because of these alterations the engines we make for the army somehow cost more than the ones we build for civilian customers. You're the fancy accountant; you figure it out. As far as I'm concerned, the monkey is off my back and on yours now.

After Ben left, Jill studied the time cards and compared them to the job order cost sheets for some of the government jobs. She concluded that essentially Ben was right. Overhead at the plant was allocated on the basis of direct labor hours. The army engines were made in a more modern part of the plant where robots did much of the work on the engines as compared with the more labor-intensive civilian engines. The alterations on the time cards had caused a significant amount of applied overhead to be shifted from the civilian jobs to the military ones.

John Love, the division controller and Jill's boss, was someone Jill admired and respected. John had been kind to her and supported her as a professional ever since she had come to Mega. She decided to present the evidence to him.

John: Jill, you don't know Ben like I do. He's testing you. This is simply no big deal. You know as well as I do that all the latest managerial accounting literature says that more realistic overhead allocation occurs when we allocate more overhead to more capital-intensive areas of the plant. You're a competent professional with a bright future here. Don't let Ben get under your skin.

Jill: But the government contract. . . .

John: Those government bureaucrats don't understand accounting. Trust me, Jill; I've studied this issue. We're just trying to get a fair return on our investment for Mega here. We are family here at Mega. We take care of one another.

Jill felt reassured after talking to John. Yet when she returned to her office she couldn't help taking another look at the government contract. The language seemed pretty clear to her. The basis for assigning overhead cost on this cost-plus contract was to be direct labor hours." (Cottell 53-55).

The ethical dilemma for Jill is more complex than the previous two cases. Jill's first option is to do nothing and allow Mega to continue swindling the government. Jill also could approach higher levels of management, or even major shareholders themselves, to try to force Mega to abide by the contract. Jill could contact government defense contract auditors and reveal the situation. What should Jill do?

Jill's first option, doing nothing, examined under the utilitarian method would yield zero positive or zero negative net consequences if Mega were never to get caught. By Mega cheating the government, taxpayers and society get hurt because tax dollars are being absorbed unfairly and could be applied to other programs. But, Mega and employees benefit because these extra dollars get redistributed to them. Apparently Mega's owners are not simply hoarding the extra money but "taking care of their own" by providing programs like the flexible benefit package. I will assume for argument that there are zero positive or negative consequences because these tax dollars are just redistributed via a different channel and that the negatives balance the positives.

However, if Mega were to be caught net negative consequences exist for Jill not telling. If Mega was caught there certainly would be a lawsuit. Mega is in violation of a government contract. Furthermore, Mega could loose the right to bid on future government contracts thereby loosing a major market and risking the possibility for part of the plant to shut down. This would harm the workers and Jill. Some workers would be out of their jobs, others might get reductions in pay because Mega would be in a financial crunch having all that idle capital intensive machinery. The flexible benefit package might be revoked. If Jill were to choose a course of action to correct Mega's fraud this might be avoided. Thus, by not telling and choosing a non-corrective course of action negative net consequences would result if they were to get caught.

Jill's approaching higher levels of management, or even major shareholders, would result in positive net consequences if Mega were to get caught or zero positive or zero negative net consequences if Mega were not to get caught. I am assuming that she is successful in correcting the problem otherwise the future is not changed and the utilitarian results would be the same as if she never did anything. If Mega is destined to get caught, correcting the problem would prevent all the negative consequences mentioned before and the avoidance of negative consequences yields a positive net consequence. If Mega were not to get caught and corrected their problem the negative consequences of lowered profits, I assume, would balance the positive consequences associated with saved tax dollars spent elsewhere.

The result of Jill reporting the matter to government defense auditors is dependent on not only if Mega were destined to get caught, but what action the government would take and how others cheating the government would react.

At this point I choose not to follow through with the utilitarian analysis of Jill reporting the matter to the government for two reasons. First, to determine the net benefits or consequences of an act containing a variety of positive and negative consequences requires that actual values be assigned to each one. When all the consequences are negative or positive the result is obvious. When there is only one positive and one negative consequence, a relative balance can be reasonably established and a net positive or negative consequence can be reasonably determined. It is just a matter of deciding which is worse or better. But, when many positive and negative consequences have to be combined, actual values must be assigned which are extremely subjective and debatable. Second, my point is already well-served, which is that utilitarianism does not help in determining courses of action because it is completely dependent on the uncertain future.

The significant duties, as described under deontologism, in this case directly include fidelity, reparation, gratitude, justice, and non-maleficence. Once again the duties of beneficence and self-improvement do not provide any strong guidance.

The duty of fidelity at least includes the implicit promises of confidentiality and reporting crimes and the explicit promise to follow GAAP. The promise of confidentiality would prevent Jill from reporting it to the government. The promise of reporting crimes would require Jill to report it. The promise to follow GAAP would require Jill to record the correct number of hours and properly allocate overhead. So, the duty of fidelity conflicts with itself, requiring Jill to tell and not to tell, and requires Jill to at least properly record direct labor hours and allocate overhead hereafter.

The duty of reparation requires Jill to correct the past wrongs Mega committed by falsifying direct labor hours and over charging the government. For this year such reparations simply involve correcting the accounts. What should Jill do for prior years? Forcing Mega to repay the government for the overcharges would be the minimum. Assuming Mega will not do this without being forced, Jill would have to tell the government and testify on their behalf to make Mega repay. So, the duty of reparation requires Jill to tell and to correct this year's accounts.

The duty of gratitude requires Jill to show consideration at least to John, her helpful boss. The requirement I see here is for Jill to show as much tact as possible and not to injure his career if possible.

The duty of justice contradicts itself. It would seem that justice would be served by Mega returning to the government all that they cheated them out of. But, if the allocations of overhead are truly inaccurate by basing them on direct labor hours, which is an improper cost driver for a capital intensive operation, then Mega deserves more than what they are legally entitled to. It could be argued that the government is playing accounting games with its contracts by requiring direct labor hours to be used in capital intensive situations. In substance this would mean that the government is cheating Mega. Because justice, in this case, could go either way, no guidance is provided.

The duty of non-maleficence requires Jill not to harm anyone. Right now the government and taxpayers are being harmed by Jill not telling in that they are being cheated out of their money. However, if Jill reports the matter Mega's employees and the employees' dependents, including her unborn child, might be harmed. So, the duty of non-maleficence contradicts itself.

So, in this case the duties of fidelity, justice, and non-maleficence all contradict themselves. The duty of reparation requires Jill to correct this year's books and the duty of gratitude simply requires Jill to be tactful. Basically, the question of what should Jill do still is not answered.

rule.

What then is the solution? No solution that considers consequences exists because nothing can be done to predict the future and considering consequences can lead to illegal acts. Some might argue that the future is predictable. These same people might easily become addicted to gambling. Would you feel comfortable if all internal accountants made ethical decisions based on their predictions of the future?

Even disregarding this point, considering consequences can also lead to illegal acts and acts that injure the minority. For example, executing terminally ill patients would provide positive net benefits because saved tax dollars would be freed up to increase everyone's standard of living and these patients would be saved from having to endure their painful deaths. This reasoning is not much different than that to allow Mega to continue to cheat the government.

Does the answer to the problem lies in deontologism? Currently deontologism disables itself with conflicting duties. These conflicts arise because accountants face multiple responsibilities. Each group an accountant is responsible to expects and demands that these duties be faithfully executed. As I have already shown, this is an unworkable situation.

Some would suggest limiting the responsibilities and/or duties in such a way that they would not conflict. The IMA produced their own version of duties called the "Standards of Ethical Conduct for Management Accountants." In doing this the accountant would basically ignore certain duties and responsibilities. Yes, this would produce solutions but so would flipping a coin. The solutions produced would not necessarily be ethical solutions. As I have already proven, accountants do have all these responsibilities. Ross has shown that everyone does have these seven duties. The duties come with being human and the responsibilities come with being a member of society, the accounting profession, and the company. They cannot be made to disappear. Winston Churchill once said "Our difficulties and dangers will not be removed by closing our eyes to them." Telling the Beverly Hills Savings and Loan accountant that it is not his problem to be concerned with the well being of their depositors and shareholders does absolutely nothing! The fact remains that he knows that these people are being unfairly hurt. That is in fact what limiting an accountant's responsibilities and duties would do, force accountants to close their eyes to them.

Each profession has its own inherent paradox. Attorneys must defend to the best of their ability clients that they know to be guilty. Doctors must decide on whether or not to pursue a treatment path even though it may be damaging or even fatal. And, accountants have unsolvable ethical dilemmas as their own personal inherent paradox. As Neil Holmes, editor of Management Accounting magazine put it "We struggle with the fact that there is usually not an easily determined answer to the resolution of the ethical conflicts we are confronted with." All I can say at this point is that the solution to an accountant's ethical dilemma does not lie in careful reasoning and logic nor in predicting the future but in his or her own character.

Honors Thesis Abstract
Thesis Submission Form

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Abstract:

"Ethical Dilemmas in Accounting" examines ethical dilemmas faced by internal accountants (i.e. management accountants, cost accountants, controllers, and internal auditors). Responsibilities of internal accountants and major ethical systems are first discussed followed by a case by case analysis of ethical dilemmas. The general ethical dilemma faced by internal accountants is characterized by uncertain consequences, multiple responsibilities, and conflicting duties. Because of these three characteristics, ethical dilemmas faced by internal accountants are virtually impossible to resolve ideally.

Subject Words: Accounting Ethics - Ethics - Ethical Dilemmas